

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Kalkaska Public Transit Authority	County Kalkaska
Audit Date 9/30/04	Opinion Date 12/5/04	Date Accountant Report Submitted to State: 3/7/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson & Decker, P.C.			
Street Address P.O. Box 746	City Roscommon	State MI	ZIP 48653
Accountant Signature 	Digitally signed by James M. Anderson, CPA DN: cn=James M. Anderson, CPA, c=US, o=Anderson & Decker, PC, email=jma@m33access.com Date: 2005.03.07 11:47:44 -05'00'		Date 3/7/05

**KALKASKA PUBLIC TRANSIT AUTHORITY
AUDIT REPORT
YEAR ENDED SEPTEMBER 30, 2004**

KALKASKA PUBLIC TRANSIT AUTHORITY

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Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

December 17, 2004

Board of Directors
Kalkaska Public Transit Authority
Kalkaska, MI 49646

We have audited the financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements of the Kalkaska Public Transit Authority as of and for the year ended September 30, 2004, as listed in the table of contents. These statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Kalkaska Public Transit Authority, as of September 30, 2004, and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2004, on our consideration of the Iosco Transit Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The management's discussion and analysis on page 3 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Page 2
Board of Directors
Kalkaska Public Transit Authority
December 17, 2004

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kalkaska Public Transit Authority financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole.

A handwritten signature in cursive script, appearing to read "J. Anderson".

ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

KALKASKA PUBLIC TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004

Kalkaska Public Transit Authority (KPTA), a county-wide public transportation system is located in Kalkaska, Michigan. KPTA was organized under P.A. 196 of the Public Acts of 1986. KPTA operates with a five person board of Directors, one person appointed by the Commission on Aging, one by the township associations one by the Village of Kalkaska Council and two by the Kalkaska County Commissioners, one of which has to be high school student of the age of eighteen.

KPTA Board of Directors meet the third Thursday of each month. At each meeting they are given for review and action the monthly ridership report and the financial records for the month and any other information pertaining to the operation of KPTA.

KPTA had revenue of \$964,721 and expenses of \$905,105 for the fiscal year ending September 31, 2004. KPTA is financially strong. We feel that if State and Federal funding continues to drop we could operate for a period of 12-18 months. If needed we feel that this would provide us with a gradual shut down and allow our workers a period of time to seek other employment without placing a hardship on them.

At the current time we are looking at adding a fueling station, a vehicle washing facility and adding a security fence. We have been working with the State of Michigan and their Home Town Security Agency in making this facility available to them if needed. Some of our capital improvement request is required due to the partnership with the State Agency. We are also asking for three replacement vehicles.

There is concern about our cost for health insurance and the cost of fuel for our vehicles. Health insurance is a major cost of our budget, increasing each year. Within the last five years it has increased anywhere from 15% to 25%. The KPTA Board did help reduce the increase this year by increasing the co-pay for prescriptions. In recent years we have switched most of our vehicles from gasoline to diesel. We are also looking at alternatives for our diesel driven vehicles.

KPTA employees receive an above average wage and benefits for this area of the Country. Cost of living figures are used each year for reviewing annual increase in benefits and wages.

Ronald Kea
Director

KALKASKA PUBLIC TRANSIT AUTHORITY
ENTERPRISE FUND
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

ASSETS

Current Assets:

Cash and investments	\$ 1,404,303
Accounts receivable	21,456
Taxes receivable	2,435
Grants receivable	67,842
Prepaid expenses	<u>11,914</u>

Total Current Assets	1,507,950
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Property and equipment, less accumulated depreciation	<u>1,412,758</u>
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Total Assets	<u>2,920,708</u>
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LIABILITIES

Current Liabilities:

Accounts payable	3,733
Accrued payroll	32,915
Due to other governmental units	<u>14,716</u>

Total Current Liabilities	<u>51,364</u>
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Long-Term Liabilities:

Compensated absences	<u>8,123</u>
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Total Long-Term Liabilities	<u>8,123</u>
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NET ASSETS

Contributed equity	709,993
Undesignated	<u>2,151,228</u>

Total Net Assets	<u><u>\$ 2,861,221</u></u>
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See Notes to Financial Statements

KALKASKA PUBLIC TRANSIT AUTHORITY
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2004

Operating Revenues	
Charges for services	
Fare box and special fares	\$ 156,058
Vehicle maintenance	<u>2,452</u>
Total operating revenues	<u>158,510</u>
Operating Expenses	
Salaries and wages	352,158
Fringe benefits	167,454
Services	17,115
Materials and supplies	60,335
Utilities	17,148
Casualty and liability insurance	11,816
Miscellaneous	10,669
Depreciation	<u>268,410</u>
Total operating expenses	<u>905,105</u>
Operating income (loss)	<u>(746,595)</u>
Non-operating Revenues (expenses)	
Property taxes	140,770
Federal	73,030
State	285,492
State and Federal capital grants	288,276
Interest/investment income	15,315
Gain on sale of fixed assets	<u>3,328</u>
Total non-operating revenues	<u>806,211</u>
Change in Net Assets	59,616
Net Assets - October 1, 2003	<u>2,801,605</u>
Net Assets - September 30, 2004	<u><u>\$ 2,861,221</u></u>

See Notes to Financial Statements

KALKASKA PUBLIC TRANSIT AUTHORITY
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 59,616
Adjustments to reconcile net income to net cash flows from operating activities:	
Depreciation	268,410

Changes in assets and liabilities:

Decrease (increase) in accounts receivable	2,644
Decrease (increase) in taxes receivable	(2,435)
Decrease (increase) in due from governmental units	44,056
Decrease (increase) in prepaid expenses	(1,253)
Increase (decrease) in accounts payable	(936)
Increase (decrease) in accrued payroll	10,320
Increase (decrease) in due to other governmental units	11,815
Increase (decrease) in compensated absences	<u>1,847</u>

Net Cash Provided By Operating Activities	394,084
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of property and equipment	<u>294,366</u>
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Net Increase (Decrease) in Cash and Cash Equivalents	99,718
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Cash and Cash Equivalents at October 1, 2003	<u>1,304,585</u>
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Cash and Cash Equivalents at September 30, 2004	<u><u>\$1,404,303</u></u>
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See Notes to Financial Statements

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

The Kalkaska Public Transit Authority was created on October 1, 1987 to provide transit services to the residents of Kalkaska County.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kalkaska Public Transit Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed.

Financial Reporting Entity - The Public Transit is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this state requirement.

In compliance with GASB statement 14, these financial statements are included in the County's (oversight unit) Basic Financial Statements as an Enterprise Fund.

Fixed Assets and Depreciation - Fixed assets are stated at cost or fair market value at date of gift. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method.

Inventory - Inventories are recorded as expenditures in the year of purchase. The amounts on hand at September 30, 2004 were determined to be immaterial and have therefore not been recorded on the books.

Property Taxes - Property taxes are levied as of December 1 of each year and are due by the last day of the following February. The taxes are collected by the local units of government within the County and are periodically remitted to the Transit through the County during the collection period. The taxes are recognized as revenue in the year in which payment is due.

Contributed Capital - Prior to October 1, 2001, proceeds received from the State and the U.S. Department of Transportation, in accordance with contracts to purchase fixed assets were credited to Contributed Capital and were not recorded as revenue. Depreciation of fixed assets purchased with these funds is charged against Contributed Capital.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2004

NOTE C - VACATION AND SICK LEAVE

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation time does not accumulate from year to year except by mutual agreement between the Transit and the employees.

Sick leave is granted without pay upon application from the employee for illness or injury subject to the employer's right to request medical proof of disability.

The current portion of compensated absences benefits are recorded as expenditures.

NOTE D - CASH AND INVESTMENTS

The balance sheet at September 30, 2004 contained \$1,404,303 which was on deposit within various bank accounts. At year-end, the bank balance of these deposits was \$1,415,354. These deposits were approximately 30% insured according to FDIC regulations.

Deposits are categorized into these three categories of credit risk:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized

	Carrying Amount	Bank Balances
Insured (FDIC)	\$ 438,925	\$ 418,379
Uninsured and Uncollateralized	<u>965,378</u>	<u>996,975</u>
Total Deposits	<u>\$1,404,303</u>	<u>\$1,415,354</u>

Michigan law prohibits collateralization of public funds.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2004

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>Balance 10/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 9/30/04</u>
Land	\$ 10,000	\$ -0-	\$ -0-	\$ 10,000
Building and Improvements	1,173,378	6,090	-0-	1,179,468
Vehicles	1,000,590	288,276	-0-	1,288,866
Shop Equipment	133,294	-0-	-0-	133,294
Office Equipment	<u>107,775</u>	<u>-0-</u>	<u>-0-</u>	<u>107,775</u>
Totals	<u>\$2,425,037</u>	<u>\$ 294,366</u>	<u>\$ -0-</u>	\$ 2,719,403
Accumulated Depreciation	<u>\$1,038,235</u>	<u>\$ 268,410</u>	<u>\$ -0-</u>	<u>\$ 1,306,645</u>
Net Property and Equipment				<u>\$ 1,412,758</u>

Depreciation expense for fiscal year ending September 30, 2004 was \$268,410.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2004

NOTE F - EMPLOYEE PENSION PLAN

The Kalkaska Public Transit Authority participated in a defined contribution pension plan through December 31, 1999. The plan covered substantially all full-time employees of the Authority. The Authority contributed 7.5% of all employees base compensation to the plan annually. All benefits vested immediately and were credited to each participant's account. As of January 1, 2000 the Authority began participating in a defined benefit retirement plan administered by the Municipal Employees Retirement System (MERS). The entire balance in the previous pension plan of \$156,858 was transferred to the MERS on February 15, 2000. In addition, the Authority contributed \$327,951 to fund the buy in and first year contribution.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401(a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report can be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Employees of the Authority age 55 with the 15 or more years of credited service are eligible for retirement. The plan adopted requires a 2% match from each participating employee's compensation.

The normal cost and amortization payment were determined using the entry age normal actuarial funding method. Actuarial assumptions include (a) projected salary and wage increases of 4.15% due to inflation and from 0.0% to 4.16% based on merit and longevity, (b) a net long-term investment yield rate of 8%, (c) 1994 Group Annuity Mortality Tables.

Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over 34 years.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2004

NOTE F - EMPLOYEE PENSION PLAN (CONTINUED)

Components of the Actuarial Accrued Liability at December 31, 2003, the last date of Annual Actuarial Valuation, are as follows:

Actuarial Accrued Liability:

Retirees and beneficiaries	
Currently receiving benefits	\$ 19,197
Non-vested terminated employees	2,929
Current employee contributions -	
Including allocated investment income	163,443
Employer financed contributions -	
Including allocated investment income	<u>785,451</u>
Total Actuarial Accrued Liability	971,020
Net Assets Available for Benefits at Actuarial Value	
(Market Value \$734,581)	<u>804,484</u>
Unfunded Actuarial Accrued Liability	<u>\$ 166,536</u>
Unfunded Actuarial Accrued Liability as a	
Percent of fiscal 2003 covered payroll	<u>47%</u>

For fiscal year beginning October 1, 2005, the Annual Required Contribution is \$57,660. The Amortization Factor Used was 0.053632.

Trend information of Aggregate Accrued Liabilities follows:

Valuation Date	2003	2002	2001
Accrued Liabilities	<u>\$ 971,020</u>	<u>\$ 830,796</u>	<u>\$ 752,725</u>
Valuation Assets	<u>\$ 804,484</u>	<u>\$ 679,167</u>	<u>\$ 602,342</u>
Funded Percent	<u>83%</u>	<u>82%</u>	<u>80%</u>
Unfunded Actuarial Liability	<u>\$ 166,536</u>	<u>\$ 151,629</u>	<u>\$ 150,383</u>
Unfunded Actuarial Liability as a			
Percent of Annual Payroll	<u>47%</u>	<u>46%</u>	<u>47%</u>

NOTE G - STATE GRANTS

The Transit has contracted with the State of Michigan for grant funds for operations and equipment. All of the monies that the Public Transit is now eligible to receive have not been disbursed to them as the projects have not been completed. As of September 30, 2004, \$318,693 is still available to the Transit under those grants.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2004

NOTE H - RISK MANAGEMENT / SELF-INSURANCE PROGRAMS

The Transit is covered under the County's participation in risk management pools and self-insurance programs. The Transit reimburses the County annually for its share of the premiums.

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a state pool member and has deductibles which differ for each type of coverage.

The County has insurance coverage for workers' compensation provided by an independent insurance company which is licensed in the State of Michigan.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2004

NOTE I - CONTRIBUTED CAPITAL

The Contributed Capital equity account represents funds provided by the federal Government and State of Michigan, to the Authority, to purchase buildings, buses and equipment. Depreciation on buildings, buses and equipment purchased with State and Federal Funds is charged against this account. Depreciation of fixed assets purchased with Contributed Capital, for the same period was \$101,428.

Effective for fiscal years beginning after July 2000, and for all subsequent years, all State/Federal Capital Grants are recorded as revenue on the Statement of Revenues, Expenses and Changes in Retained Earnings. For the year ended September 30, 2004 \$288,276 of State/Federal Capital Grants were recorded as revenue.

Contributed Capital balances as of September 30, 2001 have not been restated, and will continue to be amortized over the lives of the related fixed assets, until entirely depleted.

SUPPLEMENTAL INFORMATION

SCHEDULE 1

KALKASKA PUBLIC TRANSIT AUTHORITY
OPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2004

Operating Revenues

Demand-response (farebox)	\$ 156,058
Maintenance services	<u>2,452</u>
Total Operating Revenues	<u><u>\$ 158,510</u></u>

KALKASKA PUBLIC TRANSIT AUTHORITY
OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2004

	<u>Operations</u>	<u>Maintenance</u>
Labor		
Operators' salaries and wages	\$ 108,778	\$ 71,638
Dispatchers' salaries and wages	35,338	-0-
Fringe Benefits	69,364	33,777
Services	13,915	-0-
Materials and Supplies Consumed		
Fuel and lubricants	31,065	-0-
Tires and tubes	2,384	-0-
Other materials and supplies	-0-	26,886
Utilities	-0-	-0-
Casualty and Liability Costs	10,282	-0-
Miscellaneous Expenses		
Travel and meetings	-0-	-0-
Advertising	-0-	-0-
Other miscellaneous expenses	-0-	-0-
Depreciation & Amortization	<u>261,458</u>	<u>2,772</u>
Total Expenses	<u>\$ 532,584</u>	<u>\$ 135,073</u>

SCHEDULE 2

<u>General Administration</u>	<u>Total System</u>
\$ 136,404	\$ 316,820
-0-	35,338
64,313	167,454
3,200	17,115
-0-	31,065
-0-	2,384
-0-	26,886
17,148	17,148
1,534	11,816
218	218
6,885	6,885
3,566	3,566
<u>4,180</u>	<u>268,410</u>
<u><u>\$ 237,448</u></u>	<u><u>\$ 905,105</u></u>

SCHEDULE 3

KALKASKA PUBLIC TRANSIT AUTHORITY
NONOPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2004

Local Operating Grants

Tax Levy	<u>\$ 140,770</u>
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Subtotal Local Operating Grants	<u>140,770</u>
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State of Michigan Operating Grants

Formula Operating Assistance (Act 51)	283,044
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R.T.A.P.	<u>2,448</u>
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Subtotal State of Michigan Operating Grants	<u>285,492</u>
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Federal Operating Grants

U.S. DOT Operating Grant - Section 5311	<u>73,030</u>
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Subtotal Federal Operating Grants	<u>73,030</u>
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Capital Grant Revenues

	<u>288,276</u>
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Interest Income

	<u>15,315</u>
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Gain (Loss) on Sale of Property

	<u>3,327</u>
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Total Nonoperating Revenues	<u><u>\$ 806,210</u></u>
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SCHEDULE 4

KALKASKA PUBLIC TRANSIT AUTHORITY
SCHEDULE OF CONTRIBUTED EQUITY
YEAR ENDED SEPTEMBER 30, 2004

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Balance, October 1, 2003	\$ 591,979	\$ 219,442	\$ 811,421
Deduct			
Depreciation on assets purchased from contributed equity	<u>77,193</u>	<u>24,235</u>	<u>101,428</u>
Balance, September 30, 2004	<u>\$ 514,786</u>	<u>\$ 195,207</u>	<u>\$ 709,993</u>

SCHEDULE 5

KALKASKA PUBLIC TRANSIT AUTHORITY
CAPITAL CONTRACTS
YEAR ENDED SEPTEMBER 30, 2004

Grantor: Michigan Department of Transportation

	<u>Grant Award or Carry Over</u>	<u>Earned</u>	<u>Amount Remaining</u>
#2000-0483	\$ 13,438	\$ 13,438	\$ -0-
#2000-0408	13,278	-0-	13,278
#2001-0919	8,570	-0-	8,570
#2002-0057/Z2	309,383	274,838	34,545
#2002-0057/Z4	192,745	-0-	192,745
#2002-0057/Z5	30,219	-0-	30,219
#2002-0057/Z7	11,441	-0-	11,441
#2002-0057/Z6	<u>27,895</u>	<u>-0-</u>	<u>27,895</u>
Totals	<u>\$ 606,969</u>	<u>\$ 288,276</u>	<u>\$ 318,693</u>

SCHEDULE 6

KALKASKA PUBLIC TRANSIT AUTHORITY
EXPENSES BY CONTRACT AND GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2004

	<u>Operations</u>	<u>Total</u>
Labor	\$ 352,158	\$ 352,158
Fringe benefits	167,454	167,454
Services	17,115	17,115
Materials and supplies	60,335	60,335
Utilities	17,148	17,148
Casualty and liability	11,816	11,816
Miscellaneous	10,669	10,669
Depreciation and Amortization	<u>268,410</u>	<u>268,410</u>
Total	905,105	905,105
Less		
Ineligible Expenses and Project Revenues	<u>238,166</u>	<u>238,166</u>
Total Eligible Expenses	<u><u>\$ 666,939</u></u>	<u><u>\$ 666,939</u></u>

SCHEDULE 7

KALKASKA PUBLIC TRANSIT AUTHORITY
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2004

	2002-0057 Federal <u>Section 5311</u>	State Operating <u>Assistance</u>
Expenses		
Labor	\$ 352,158	\$ 352,158
Fringe benefits	167,454	167,454
Services	17,115	17,115
Materials & supplies	60,335	60,335
Utilities	17,148	17,148
Casualty & liability	11,816	11,816
Miscellaneous	10,669	10,669
Depreciation	<u>268,410</u>	<u>268,410</u>
Total Expense	<u>905,105</u>	<u>905,105</u>
Less Ineligible Expenses		
Depreciation	229,911	229,911
R.T.A.P.	2,448	2,448
Audit Fee	3,200	-0-
MASSTRANS Dues	155	155
Non Transportation Revenues	<u>2,452</u>	<u>2,452</u>
Total Ineligible Expense and Project Revenue	<u>238,166</u>	<u>234,966</u>
Net Eligible Expenses	<u>\$ 666,939</u>	<u>\$ 670,139</u>
Maximum Section 5311 Reimbursement (10.95) (Not to exceed \$82,344)	<u>\$ 73,030</u>	
State Operating Assistance		<u>\$ 283,044</u>

Federal Section 5311 expenses are only those expenses incurred in providing service to non-urbanized areas. The State Operating Assistance is computed at 42.236619648% of the current eligible expenses for the year ended September 30, 2004.

SCHEDULE 8

KALKASKA PUBLIC TRANSIT AUTHORITY DETAIL OF INELIGIBLE EXPENSES AND REVENUES SEPTEMBER 30, 2004

Depreciation

Depreciation accrued by public operators is ineligible according to UMTA C 9050, 1A, Page V-4. Depreciation of \$38,499 was expensed on items purchased with local funds which is considered an eligible expense.

Non Transportation Revenues

The Transit Authority provides maintenance services to several departments of Kalkaska County. The revenue from these services was considered ineligible for Section 5311 purposes.

Annual Audit Fees

Any Transit Agency that expends less than \$300,000 in federal funds must subtract out the cost of the annual audit as an ineligible expense under Section 5311. Therefore, \$3,200 has been treated as an ineligible for Section 5311 purposes.

MASSTRANS Dues

71% of MASSTRANS dues are eligible for reimbursement for State Operating Assistance and Section 5311 for the year ending September 30, 2004. Therefore \$155 is treated as ineligible.



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653
(989) 275-8831

December 17, 2004

Board of Directors
Kalkaska Public Transit Authority
Kalkaska, MI 49646

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the twelve months ended September 30, 2004, follows. This supplemental information was not audited by us and accordingly, we do not express an opinion on it. However, we have reviewed the compilation methods for mileage and passenger data and found them reliable.

Respectfully submitted,

ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

KALKASKA PUBLIC TRANSIT AUTHORITY
MILEAGE DATA, VEHICLE HOURS AND PASSENGERS (UNAUDITED)
YEAR ENDED SEPTEMBER 30, 2004

	<u>Public Transportation Mileage</u>	<u>Vehicle Hours</u>
DEMAND RESPONSE		
1st Quarter	54,470	2,760
2nd Quarter	58,464	3,181
3rd Quarter	49,884	2,580
4th Quarter	<u>42,533</u>	<u>2,299</u>
TOTAL OPERATIONS	<u><u>205,351</u></u>	<u><u>10,820</u></u>

See Auditors' Disclaimer on Preceding Page.

SCHEDULES 9 AND 10

<u>Regular Passengers</u>	<u>Senior Passengers</u>	<u>Handicapper Passengers</u>	<u>Senior Handicapper Passengers</u>
30,526	1,104	1,651	986
31,363	1,204	2,022	1,153
23,213	1,051	1,880	1,215
<u>13,313</u>	<u>785</u>	<u>1,917</u>	<u>1,271</u>
<u><u>98,415</u></u>	<u><u>4,144</u></u>	<u><u>7,470</u></u>	<u><u>4,625</u></u>



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

December 17, 2004

Board of Directors
Kalkaska Public Transit Authority
Kalkaska, MI 49646

Dear Board:

We have audited the basic financial statements of the Kalkaska Public Transit Authority for the year ended September 30, 2004, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

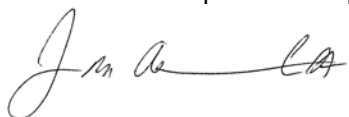
Compliance

As part of obtaining reasonable assurance about whether the Kalkaska Public Transit Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kalkaska Public Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 17, 2004.

This report is intended for the information of the audit committee, management, and Board of Directors, and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "J. Anderson", is written over the printed name of the firm.

ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS